

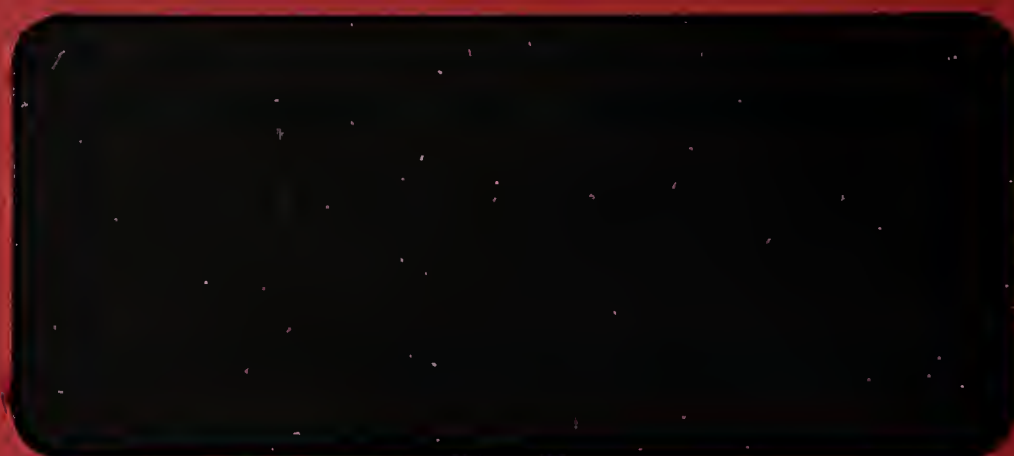
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Current Methods of Corporate Financing

Daniel F. Sullivan

Introduction

Over the years there have been many scholarly theories advanced on the cost of capital and on the optimum capital structure. There is a body of opinion in the field of finance that for every corporation there is an optimum capital structure that will assist management in achieving the goal of shareholder wealth maximization. This opinion, in brief, is based on the assumption that an optimum combination of different methods of financing will minimize the corporation's cost of capital and in turn benefit shareholders.

In selecting a particular method of corporate financing, a corporation must consider the following:

1. compatibility with financial objectives;
2. cost (in terms of earnings per share);
3. terms and conditions;
4. position as it relates to assets and earnings;
5. effect on the corporation's capital structure;
6. effect on future financing; and
7. expenses.

Short-Term Financing

Corporations require temporary financing over the interval from the purchasing of raw material, through its processing and sale to the collection of the proceeds in cash. This short-term need can be financed from either "negotiated" or "spontaneous" sources of credit. Negotiated sources include bank, money market, accounts receivable and inventory financing, with bank financing representing the dominant source. Spontaneous sources include trade credit, accruals and miscellaneous liabilities. In the interest of undistorted perspective, it should be recognized that spontaneous sources of credit are a much larger source of funds for corporations than negotiated sources. However, for purposes of this paper negotiated sources are of greater importance because they represent external sources of financing. In relation to long-term debt, short-term financing is generally more readily available, at most times less expensive, and the amount outstanding can be more easily adjusted to match the fluctuating short-term credit requirements of a corporation.

SUMMARY OF CURRENT METHODS OF CORPORATE FINANCING

SHORT-TERM	MEDIUM-TERM	LONG-TERM		
		Debt	Equity ¹	Other
Negotiated Sources	Chartered Bank Term Loans	Conventional Mortgages	Preferred Shares	Leasing
Bank Loans	Term Loans Non-Bank	Bonds ^{1, 2}	Convertible Preferred Shares	Government Assistance Programs
Bankers Acceptances		First Mortgage Bonds	Class A and Class B Shares	
Commercial Paper		General Mortgage Bonds		
Factoring	Medium-Term Debentures	Prior Lien Bonds		
Warehouse Receipts		Collateral Trust Bonds	Common Shares	
Advances	Income Debentures			
Spontaneous Sources		Equipment Trust Certificates ¹		
Trade Credit		Debentures ^{1, 2}	Share Purchase Warrants	
Accruals		Unsecured Debentures	Subscription Rights	
Miscellaneous		Secured Debentures		
Liabilities		Subordinated Debentures		
		Income Debentures		
		Convertible Debentures		

¹ Financing is arranged through either a private placement or a public offering.

² Debt instruments can be extendable or retractable, and occasionally carry share purchase warrants.

³ Debt and equity occasionally offered together in the form of a unit.

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CONTENTS

	PAGE
Sullivan, D.F., <u>Current Methods of Corporate Financing</u>	1
Swirsky, B., <u>Equity Financing</u>	31
Edwards, S.E., <u>Debt Financing - I</u>	45
Bowman, G.H., <u>Debt Financing - II</u>	57
Chown, J.F., <u>Foreign Capital - The Canadian Climate for Investment</u>	64
Johnston, D.J., <u>Leasing</u>	69
McQuillan, P.E., <u>Financing Through Government Assistance</u>	80
<u>A. P. Smith Mfg. Co. v. Barlow</u>	100
<u>Sylvia Martin Foundation, Inc. v. Swearingen</u>	104
<u>Hutton v. The West Cork Railway Co.</u>	105
R.R. Pennington, <u>Terminal Compensation for Employees of Companies in Liquidation</u>	108
<u>Peck v. Greyhound Corp.</u>	111
Vagts, D.F., <u>Reforming the "Modern" Corporation: Perspectives from the German</u>	112
Hacker, A., <u>Do Corporations Have a Social Duty?</u>	116
<u>Business and Race: Big Companies Venture Their Talent and Money in Civil Rights Effort</u>	121
From "Economic Analysis of Law", <u>Corporations Chapter 14</u>	128
From "Economic Analysis of Law", <u>Financial Markets Chapter 15</u>	144
From "An Introduction to Risk and Return from Common Stocks" by Brealey, R.A., <u>Chapter 1, Stock Prices as a Random Walk</u>	158
Manne, H.G., <u>In Defense of Insider Trading</u>	168

